PROPOSED REFORMS IN THE SYSTEM OF FOOD DISTRIBUTION.[1] II

In the distribution of live stock and meat products some of the problems are similar in nature to those of milk and produce.[1] The live-stock producers and shippers of live stock are even more disorganized than the producers of milk, fruits, and potatoes, and about on a par with most growers of vegetables. On the other hand, the distributors of meat products have become much more highly organized than any other distributors of perishable or other food products.

Before the development of the refrigerator car fresh meat could not be transported; hence the slaughter of live stock and the manufacture of fresh meat products were necessarily restricted to the community in which the meat was consumed. The application of refrigeration to transportation and the rise of cold storage plants made possible the year-round consumption of fresh meat, the location of meat-packing plants near or in the corn belt, where live stock can be most economically fattened and finished for market, and the concentration of distribution of meat products under the direction of a relatively few distributors. The total sales of the five largest packers amounted to $3,200,000,000 in 1918.[2] These five packers in 1916 controlled 94.4 per cent of the business in cattle, 81 per cent of hogs, and 94.3 per cent of sheep in the twelve largest markets, in which were slaughtered 81 per cent of the total interstate slaughter of cattle of the whole country, 78.5 per cent of the sheep and lambs, and 58 per cent of the swine[3] of the whole country, or 73.3 per cent of the total live stock handled by interstate slaughterers. They have acquired also a large part of the export trade of Argentine, Australia, and Canada, the other large meat-exporting countries. The "Big Five" packers slaughter the live

[1] This paper is largely based on a review of reports of the Federal Trade Commission and upon the recent hearings held before Congressional Committees.

[2] *Decree and Consents, Petition, Answers, and Stipulation in the United States of America* vs. *Swift & Company and Others*, Department of Justice, 1920, p. 29.

[3] *Report of the Federal Trade Commission, Meat-packing Industry*, Part I (1919), pp. iii, 123.

stock and distribute to the retailers the finished products through their own refrigerator car lines and through their own branch houses which are located in all the leading consuming centers, and through their peddler car lines by which fresh meat is brought weekly to the rest of the country. Thus a complete system has been built up to handle meat, not from the producer of live stock, but from the terminal markets to the most distant retailers. Not only has meat been handled through this vast organization, but also many other products such as lard, cotton seed oil, lard substitutes, oleomargarine, butter, eggs, poultry, canned salmon, fruits, and vegetables.[1] The same peddler car can transport all these products and the same salesman can take orders for all of them. Thus, undoubtedly, vast economies of organization have been realized by the packers. In contrast to the method of distribution of vegetables, by which there is disorganization and continued maladjustment of producer's products to consumer's needs, the system of the packers for the distribution of meats is highly efficient.

As a result of its investigation of the meat business, the Federal Trade Commission has proposed certain reforms. These reforms will be examined to see what is expected to be accomplished by them, the efficacy of the measures advocated and the bias of those supporting the reforms.

The Commission recommended that the railroads or government shall acquire (1) all live-stock cars, and (2) the stockyards, and (3) such of the branch houses, refrigerator cars, and cold storage plants and warehouses as are necessary to provide facilities for the competitive marketing and storage of food products in the principal cities of distribution and consumption, and that the railroads shall operate the live stock yards and refrigerator cars and cold storage plants as necessary parts of a complete and efficient system of transportation.

[1] By the terms of the consent decree, groceries and certain other products no longer may be transported in refrigerator cars. The significance of this legal interference with the economies of large-scale distribution will be considered further on in this article. Cf. *Decree and Consents, Petition, Answers, and Stipulation in the United States of America* vs. *Swift & Company and Others*, Department of Justice, 1920, pp. 2–5.

In the first place, it is apparent that these reforms make no constructive provisions for improving the distributive system in two respects in which it is most disorganized and expensive, namely, in the marketing of live stock and in the retailing of meat products.[1] To have attacked these two bulwarks of the laissez-faire system would have necessitated that the reformers forego their honest convictions and the premises underlying their investigations and reform measures. It should be manifest without argument that without an "efficient system for regulating the flow of live stock"[2] to the packing plants, packers are not put in a position to handle live stock most economically. The planless duplication of retail meat shops and deliveries in accordance with the old order of free competition, is likewise a cause of waste not met by the reforms.

The purposes which the commission seeks to accomplish by its reform measures are to fully protect the local butchers and independent packing plants, to encourage the establishment of these and of co-operative and municipal packing plants[3] near the sources of supply in order to save the expense of transporting the greater weight and bulk of live animals to distant packing plants and also to avoid the expense of hauls from the producing section and back again for local consumption. If adequate transportation and cold storage facilities are provided by the railroads, it is claimed that the local packing-plant can ship its surplus to distant markets in refrigerator cars on the same terms as the packers, and can obtain public storage for fresh meat in the great consuming centers on the same terms as the packers until it can be advantageously sold to some distributing agency or direct to the retailers. Without such outlets for surplus products, conditions generally have not been favorable for the continuance of independent packers or for the establishment of co-operative packing plants controlled by either the producers or consumers. The independent packing plant with

[1] Testimony of Thomas E. Wilson, president of Wilson & Co., *Hearings Relative to H. R's. 14, 232, 5034, and 5692*, April, 1921, p. 401.

[2] *Ibid*, p. 409.

[3] *Report of the Federal Trade Commission*, Part I, p. 395; *Hearings before the House Committee on Agriculture on Meat-Packer Legislation*, Sixty-sixth Congress, Second Session, Part VI, p. 414; Elwood Mead, "The Public Abattoirs of Australia," *California Cattlemen*, November, 1920, p. 5.

a small volume of business cannot afford to own its own refrigerator cars and branch cold storage houses.[1]

Would the reforms proposed mean an advantage to producers or to consumers? Judging by the efforts at decentralization in other lines, the results to be accomplished are open to question. The Federal Trade Commission report does not show that local butchers and independents in general are paying producers any more for meat, or that they are selling it for less to the consumer. Independents generally, in the later period of development of large-scale business, find it to their profit to work with the bigger concerns, and to buy and sell on the basis established by their large-scale competitors.[2] In fact, from the point of view of the trader, it is better to have a group of larger traders control 25 to 50 per cent of the total output in an industry for the effect this control will have upon the maintenance of prices. It is quite possible, as the packers suggest, that the distributor's margin might be larger if the reform measures should bring in a multiplicity of packing plants and of distributors with all the attendant duplication of equipment, manufacture, and delivery of the old competitive system.[3]

At this point there should be indicated a fundamental difference between the new order of competition and that assumed by the traditional economists to exist. The independent does not find it to his interest to cut prices of the larger operator, because if he did, he would reduce his own rate of profit. But if he should cut

[1] The higher percentage of hog products distributed by the independent packers would indicate that independents have a freer field in the manufacture and distribution of these products than of beef products. This situation is of course accounted for by the less perishable character of hog products. Cf. *Federal Trade Commission*, Part I, p. 129. "The business of these local plants is confined largely to pork packing, their trade in beef and other fresh meats, being limited in most cases to the demand of the local territory. . . . . On account of the equipment, refrigerator cars, and extensive selling organizations necessary to conduct successfully a large-scale business, small plants generally have been unable to compete with the large packers in the beef department of the industry."—Louis D. Hall, "Methods and Cost of Marketing Live Stock and Meats," *Office of Markets, United States Department of Agriculture, Secretary's Report No. 113* (1916), p. 57.

[2] *Federal Trade Commission Report*, Part I, p. 114.

[3] "The only reason that it pays (the packers) is because they do such an enormous business. If we did a small business, 9 per cent would not satisfy anybody; it could not."—J. Ogden Armour, *Hearings on H. R. 13324*, Part IV, p. 747.

prices in order to extend his market, as is assumed to be the method of price reduction in the old order of free competition, he might not only reduce his rate of profits, but he might so encroach upon the markets of his larger competitor as to bring on a period of cut-throat competition. The small operator avoids a price conflict with a large competitor. The conditions of competition are not equal, as is assumed by theorists of the old order, when capital, resources, rate of profit, total income, total amount of credit available, and cost of credit and of supplies are unequal. Even those independents who are reported to have a larger rate of return upon their net worth are not led thereby to price-cutting as a means of increasing their business, contrary to the assumptions of the old order of free competition. The reports of the Federal Trade Commission and the testimony of the various Congressional committees furnish no evidence to show that independents as a rule practice price-cutting to increase their business. The incentive in the new order of competition, as well as in monopoly business is not to increase output at the expense of prices. The elimination of a large number of independents has brought about certain economies, and at the same time given greater power of price maintenance. The question becomes, Do the reforms proposed by the commission or by Congress make it possible to retain the economies of the packer system, and do they provide for any effective method of price control to take the place of the old order of free competition?

Now as to the relation of the "Big Five" to each other, the Federal Trade Commission believe that they have been working together to depress prices to producers, and give as evidence that the five have worked together in the location of plants, in gaining control and in operation of stockyard companies, but chiefly in bringing about a uniform percentage of live-stock purchases over a period of several years for each of the five firms.[1] The big packers claim that the uniform percentage of purchases of each is not the result of any agreement but is the evidence of competition. The percentage of total business handled by each packer has remained

[1] *Federal Trade Commission*, Part I, p. 49; testimony of W. B. Colver, member of Federal Trade Commission before *Hearings of House Committee on Agriculture on Meat-Packer Legislation*, Sixty-sixth Congress, Second Session, Part II, p. 71.

the same because each packer will not be content with a less share of the business and would gain a larger percentage if the others would permit. But to increase the percentage over that of previous years would necessitate that a packer pay more for his stock and to do that would result in a loss or a lower rate of profit. "If we try to exceed our customary purchases in any market, we could not get away with it, that is all. To do that, we would have to raise the bid over the market price and Morris, Armour, and Wilson would not stand for that. They would meet our prices and there would be cut-throat competition," which admittedly does not exist.[1]

Therefore the effect of the competition claimed in the new order is that the packers maintain similar prices to producers at any given time; that is, one competitor does not pay an appreciably higher price than another. Thus a scale of prices to producers favorable to the packers is maintained by the latter quite as effectively without price agreement as if there were one. This does not mean to imply that the old order of competition would have been any more favorable to the producers. During the war the manifest interest of the packers in securing government contracts and in increasing profits did not lead them to cut-throat competition to secure a larger share of business either in the sale of the products or in the purchase of live stock. Since each of the big packers did not appreciably overbid his competitor to secure more live stock, prices were maintained at a low level to the producers who were frequently forced to sell below the cost of production, while the packers were securing a greatly increased rate of profits.[2]

Though the reforms proposed manifestly seek to establish equal conditions of competition, the investigators mainly emphasize the unequal conditions of competition that exist in all the productive and distributive processes, contrary to that which has been thought right and proper and customary by the upholders of the old order of free competition. The big packers "have entrenched themselves in what may be called the strategic positions of control of food

[1] Testimony of L. D. H. Weld, a representative of Swift & Company before *Hearings of the House Committee on Agriculture* on the *Meat-Packer Legislation*, pp. 1179–80, Part XV; cf. Testimony of Edward Morris, *Hearings on H. R. 13324*, Part IV, p. 1026.

[2] *Federal Trade Commission, Report on Profits of the Packers*, p. 10.

distribution,"[1] not primarily through the possession of industrial advantages, which have been assumed to be the basis of competitive fitness, but through possession of special privileges. The advantages which they possess over their competitors, and which are the source of special profits not shared in by their competitors, are stated by the Federal Trade Commission to be as follows:

1. Acquisition of stockyard interests partly through large gifts of cash bonuses, land, buildings, and bonds by municipalities and stockyard companies amounting to $9,000,000 and through the gift of many more millions in stockyard stocks by stockyard companies.[2] Thus the five big packers have come to own or to have controlling interest in twenty-two stockyards and financial interest in six others, in which together are marketed more than 84 per cent of the animals marketed through stockyards in the United States. These holdings give the packers control of sites for packing plants, banks, and cattle loan companies, and a practical monoply or dominant influence over many of the important businesses conducted at the yards.[3] It should be noted that the annual income which the packers receive from the stockyards is obtained from yardage and feed charges paid by the producers. To the extent that the possession of the stockyards has come into the hands of the packers as a result of gift and not as a result of outlay of money, the income received may be called a free income. The grounds upon which the right to this free income has been obtained from the producers were the consent of the packers to locate their plants near certain cities and to do their buying in the stockyards in question. The producers receive no shares in the stockyard companies as a return for their consent to sell in these stockyards. The power of the big packers to capitalize their agreement to buy at certain places is one of the differential advantages which is possessed by the big packers over the farm-owning class and which helps to explain the centralization of wealth in the hands of capitalists contrary to the expectations of the Ricardian theorists. Also it is claimed this

[1] *Federal Trade Commission, Report on Profits of the Packers*, Part I, p. 38.

[2] *Ibid.*, Part III, pp. 31, 195, 276.

[3] *Federal Trade Commission, Report on Meat-packing Industry*, Part III, pp. 11, 20, 26.

advantage may be sufficient to prevent the survival of competitors who would otherwise buy at such markets. It is claimed that the big packers, through the integration of the packing plants with stockyard markets, together with other marketing and manufacturing facilities, may give up the income from one or more of such sources and can afford, temporarily, to pay more for live stock than they can sell it for, or can sell meat products for less, for the purpose of driving out a competitor. Thus integration may become the means of elimination of competition and of securing control of the market. It is further claimed that the control of stockyards gives to the "Big Five" the power to affect the prices they pay for animals[1] and to influence the consideration which independent competitors receive in such markets.[2] The origin of the advantage of ownership of stockyards is not primarily traceable to the industrial efficiency of the packers, however complete their industrial methods may be, but such ownership has been manifestly the result of the strategic power of the big packers as the largest buyers in the markets.

2. The purchase by the "Big Five" of 73.3 per cent (in 1916) of the total live stock in the hands of interstate slaughterers gives these packers strategic power to "bull" or "bear" the market in which they buy or sell commodities.[3] It is usually thought that the control of a much smaller percentage of a market gives the operators an advantage over competitors. The evidence given indicates that the packers pay lower prices upon days of larger receipts and higher prices on days of light receipts.[4] Fluctuations in producers' prices are not necessarily reflected in corresponding changes in jobbers' and consumers' prices, though the general movement of consumers' prices follows that of producers.[5] This

[1] *Ibid.*, Part III, p. 86. [2] *Ibid.*, pp. 86, 94, 101, 137.

[3] *Ibid.*, Part I, p. 106; Part II, pp. 12, 93, 94, 137; Part III, p. 89.

[4] *Federal Trade Commission*, Part III, p. 106; *Studies in Live-Stock Marketing*, Swift & Co., July, 1921.

[5] Testimony of W. B. Colver, member of the Federal Trade Commission, in the *Hearings of the House Committee on Agriculture on Meat-Packer Legislation*, Part II, pp. 77–88. The *Producer* (Denver, Colorado) for November, 1920, points out that when equalization of receipts was brought about through the adoption of the zone system of shipment of live stock, fluctuation in prices to producers continued as great as ever and that such fluctuations were not reflected in wholesale prices.

failure of changes in producers' prices to be reflected in corresponding changes in consumers' prices, contrary to classical and marginal utility doctrines, may be a phenomenon which is common to the trade in general, but its significance is not usually recognized. When the turnover takes place every one or two weeks, the price of a perishable product like meat would change as frequently if the old competitive order still persisted. To the extent that jobbers' and consumers' prices do not immediately follow producers' prices during periods of falling prices, there is a measure of control over prices by the distributors that gives them a differential advantage over the producing and consuming classes.[1] Whether the retailer is more to blame for maintenance of consumers' prices during a period of low prices to producers, the evidence furnished by the commission, or by the Congressional hearings unfortunately does not make clear. If the retailers are as much or more successful in maintenance of prices, then the conclusion may be drawn that monoply control is not confined to the so-called monopolies or trusts. If the packers have no power[2] of price maintenance and the retailers have all the power, then the effect is the same, namely, discouragement of consumption and consequently a decrease in production. The attention of reformers should then change from packers to retailers.

3. The "Big Five" have an advantage in manufacture through their ability as large-scale operators to own facilities for the utilization of by-products and through the size of their purchases to obtain supplies and credit, at lower prices than independents.[3] The five big packers borrowed money in 1918 at an average rate of 5.9 per cent, whereas twenty-seven of the representative independent packers paid an average rate of 6.7 per cent, a difference of 0.8 per cent in favor of the big packers.[4] At this rate the annual

[1] The effectiveness of packer control has been shown in the recent decline of prices in that the prices of lard, of which the packers have a greater control, have been slower to decline than pork, and pork slower than the producers' prices of hogs.—*Board of Trade Journal* (London), December 2, 1920, "The Fall in Prices in the United States," p. 651. Cf. Wesley C. Mitchell, *Business Cycles*, pp. 559, 569, 570.

[2] L. D. H. Weld, *Quarterly Journal of Economics*, May, 1921, p. 427.

[3] *Federal Trade Commission, Report on Meat-packing Industry*, Part III, pp. 116, 118.

[4] *Ibid.*, Part III, p. 120.

savings of the five big packers over their competitors would be \$5,080,679.14 upon the basis of 1918, in which year these packers had borrowed on their own notes \$452,475,862, and had outstanding in bonds and mortgages \$182,609,031.[1] The live-stock producers on the other hand have to pay from 6 to 10 per cent for money.[2] This large difference in the interest rate in favor of packers over the producers represents a differential advantage which helps to explain the failure of wealth to centralize in the hands of the agricultural land-owning class and its centralization in the hands of capitalists contrary to the expectations and logic of all early economists. The quantity prices obtained generally by the "Big Five" represent differential advantages due to size. The quantity price tends to prevent the entrance of the small competitor, and the inability of the small competitor to get such prices keeps his business from growing large. It is therefore an advantage which does not disappear with competition. It is one of the advantages which the proposed packer legislation does not touch.

4. The five big packers have gained a control of the greater part of the facilities by which meat products must be distributed. This has been accomplished through the ownership of 91 per cent of refrigerator cars suited for the transportation of fresh meat; through the ownership or control of icing stations where cars of competitors must be iced; by the operation of car routes and auto trucks; by the ownership of 1165 branch houses and through ownership or control of 44.8 per cent of the total cold storage in the United States.[3] "The freight tonnage controlled by the big packers has for years given them a great leverage in their dealings with the railroads. Until the Interstate Commerce Commission interfered, this power was used to obtain rebates and in recent years to secure special privileges and concessions."[4] The cars leased or owned by the independents are moved more slowly by the railroads than those of the big packers. The cars of the former average 54 miles a day, whereas those of the latter average 80 miles a day, and the difference between 54 and 80 may mean a

[1] *Federal Trade Commission, Report on Profits of the Packers*, p. 105.

[2] *H. R. 13324*, Part V, p. 1545.

[3] *Report of the Federal Trade Commission*, Part I, pp. 40, 153; Part III, p. 129.

[4] *Ibid.*, Part I, p. 41.

difference between profit and loss[1] Moreover the big packers are able to transport in their refrigerator cars large amounts of groceries of a non-perishable character and secure for themselves a more rapid and more regular service than the wholesale grocer at the same rate, or, in many cases, at a lower commodity rate than the wholesale grocer pays on shipments in ordinary freight cars.[2]

5. Through the ownership or control of these marketing facilities, the big packers have been able to develop their own wholesale distributing system for jobbing meat products and groceries direct to the retailer. Such a system it is claimed has so completely taken the place of a formerly existing wholesale system for selling meat through meat brokers and commission houses to retailers that the principal remaining outlet for the small independent packer, aside from his local trade, is through the jobbing system of his competitors, the big packers.[3] Of the disadvantage of the independent packer in selling in distant markets the Federal Commission says, "They encounter the discouraging features of irregularity in transportation, inferior service, and lack of facilities for taking care of the goods on arrival, all of which tend to bring about deterioration of the meats and dissatisfaction on the part of the customer. Hence, in reaching distant markets, the independent packers encounter a greater expense, more uncertainty, and proportionately greater losses than do the great packers."[4] The question at this point is how the waste of duplication of branch houses may be avoided, and how the economies of one system of distribution may be secured for the consumer under the price system without giving to the private owner or owners of

[1] Testimony of William B. Colver, formerly chairman of the Federal Trade Commission, before the *Hearings of the Senate Committee on Agriculture and Forestry*, Part I (1919), p. 108. Cf. Testimony of Thomas E. Wilson representing Wilson & Co. before the *Hearings of Senate Committee on Agriculture and Forestry*, Sixty-fifth Congress, Third Session, Part II, p. 1975.

[2] Testimony of Dr. Lewis H. Haney before the *Hearings of the Senate Committee on Agriculture on the Stimulation of Live-Stock Products*, Sixty-sixth Congress, First Session, Part I, pp. 244–47.

[3] *Report of the Federal Trade Commission*, Part III, p. 131.

[4] *Ibid.*, p. 122; cf. testimony of L. D. H. Weld, representative of Swift & Co. before *Hearings of the House Committee on Agriculture*, Sixty-sixth Congress, Second Session, Part XIII, pp. 951, 953.

that system such advantages over their competitors as to make competition largely ineffectual as a method of control.[1]

The advantages emphasized by the commission are in the nature of privilege, special consideration, or strategic power which has accrued to the business of greater size. The lack of such advantages tends to prevent the existence of a small business or the growth of the independents to the size by which they might acquire like privileges, consideration, or equipment. They are, therefore, advantages which have not disappeared with competition. These strategic advantages emphasized by the commission together with the industrial economies of large-scale operations, which unfortunately are not given due credit by the commission, afford the necessary explanation of one of the main facts, namely, the admitted concentration of ownership in the meat-packing industry.[2] Moreover, the relatively high profits of the packers,[3] whether the "Big Five" or the Independents, and the relatively low profits of the producers, have resulted in a concentration of wealth outside of the agricultural land-owning class, contrary to the logic and conclusions of the supply-and-demand theorists of the old order of free competition.[4] Profits have not tended toward equality. There is no

[1] The partial acquisition of branch houses by the government proposed by the commission would not prevent such duplication; and none of the later bills including those passing the House and Senate in June, 1921, retains any provision for government ownership of branch houses or any other distributive equipment. H. R. 6320, Sixty-seventh Congress, First Session, with Senate Amendments, June 20, 1921.

[2] The packers differ from the commission in explaining the concentration of ownership by their efficiency in manufacture and distribution on a large scale. *Reply of Swift & Company*, July 23, 1917, pp. 13–17.

[3] "The growth of one packing establishment increased from a capital of $160,000 in 1868 to $169, 366, 000 in 1918, which is an increase in net worth in fifty years of one thousand per cent."—Testimony of J. Ogden Armour, *Hearings before the House Committee on Interstate and Foreign Commerce*, Part IV, pp. 626, 711. "About 8 per cent of the present net worth of the company has come from cash or property contributions on the part of the stockholders."—*Federal Trade Commission Report*, Part V, p. 9. The net worth of four of the "Big Five" packers increased from $92,000,000 in 1904 to $479,000,000 in 1919, but only $89,000,000 of their increased worth represented an outlay for new capital.

[4] William R. Camp, "Limitations of the Ricardian Theory of Rent," *Political Science Quarterly*, September and December, 1918. This situation should be contrasted with that of the time of the Napoleonic Wars. Ricardo thought that the profits of manufacturers and other capitalists would tend to be low, that all advantages possessed

equality of opportunity for entrance into a business or for remaining in it as was formerly assumed. There is not a free field for individual initiative which the exponents of the old order have regarded as a cardinal advantage of the institution of private property and as vital to the development and maintenance of business enterprise. This is not to say that the departure of the old freedom is regrettable. If the investigations of the commission and of other departments of the government have shown that a new order has arrived, then possibly any efforts for the restoration of the old are futile. The elimination of independents,[1] which has been the cause of so much personal grievance and loss of profits and property to many, and of numerous government investigations, has made possible a more systematic organization of the meat industry. The question is, How may the economies realized be shared in more extensively by the producers and consumers under a system of exchange according to price, and of management by a portion of the owners?

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by manufacturers would disappear with competition, and that therefore there would be no concentration of capital in the hands of capitalists, but that on the other hand, the price of food products would tend to be high, that land-owners would get all of the benefits of higher food prices through higher rents, that rents or incomes of land owners would tend to be high, and that there would be concentration of wealth in the hands of the agricultural land-owners. By the time of the Great War, the revolution in institutions had become so great that the reverse was true at every point in the argument, with one exception, namely, that food prices have become high. The general testimony seems to indicate that live stock, to a considerable extent, produced during the war was below the cost of production, that is, if the live-stock producers allowed rent for their land at *even* the prevailing rate of interest. Cf. Testimony of Dr. Spillman, formerly head of the Bureau of Farm Management, U.S. Department of Agriculture, and data tabulated by Walter Stewart; *The War Industries Board Report of Hearings of the House Committee, Interstate and Foreign Commerce on Government Control of Meat-packing Industry*, 1919, Part V, pp. 1444–60; 1518–30; statement of E. V. Lasater, pp. 1561–78; *Hearings before the House Committee on Agriculture on the Meat-Packer Legislation*, Sixty-sixth Congress, Second Session, Part VII, pp. 490–91.

[1] Testimony of Thomas E. Wilson, president of Wilson & Co., *H. R. 13324*, Part IV, pp. 1210, 1319; *Hearings before the House Committee on Agriculture, in the Meat-Packer Legislation*, Sixty-sixth Congress, Second Session, Part VII, pp. 478–81; *Federal Trade Commission*, Part III, p. 145; Part I, pp. 190–91; Part II, p. 159; testimony before Select Committee on Transportation and Sale of Meat Products, Senate Report 829, Fifty-first Congress, First Session, pp. 118, 119, 121, 131, 140–48, 266.

To continue the argument, it is claimed by the commission that independent private owners are not able to acquire the facilities which would make them effective competitors, and it is therefore proposed that the government or the railroads should make up for this lack of private ownership under the present competitive system, by public ownership, and provide certain facilities for the independent packers', co-operative producers', or consumers' packing plants. These reforms seem to be an admission of the defects of private property under the present system of competition, and to represent an endeavor to maintain the property rights of the many against the few.

According to the competitive theory of the old order, private property was not considered a privilege. The laissez faire policy of government was supposed to do away with all privilege. Privilege was thought to be political in its origin. If all interference by the state was done away with, the natural order of free trade would prevail and privilege would disappear. Free trade was conceived to be purely a competition between industrial agents. If the government would keep its hands off, goods would be exchanged in the long run, according to their labor value or industrial costs. Any profits obtained were thought to be the result of the efficient management in putting consumable goods upon the market. Profits were considered to be the "wages of management," and as such were essentially the reward for labor efficiently exercised. Any excessive wages or profits, it was thought, would be of temporary duration and generally speaking highly meritorious. *If wages or profits should ever become excessive, that is, more than could be obtained in other lines, those in that industry would be interested, it was assumed, to increase their output and would increase their output to secure the increased reward.* Thus increased reward in terms of price would result in increased output in terms of goods. Furthermore, others would be free to come into such an undertaking, and would come into it and increase the output until prices would fall and the reward in that industry would equal that of others. Thus, equality of opportunity would continue. It follows that no accumulation of profits, no concentration of wealth in the hands of capitalists, and no concentration of power as a

result of private property were anticipated. Profits would tend to be low and the benefits of all economies and improvements could not be retained by the owners but would be transferred to the consumers in the form of low prices.

This has been and is the argument to prove the sufficiency of free competition to determine prices and to indicate the needlessness of any regulation except such as inheres in the natural order of free trade. Thus, the competitive theory of prices and laissez faire sink or swim together. Thus, the competitive theory arose to show how the products of labor, past and present, might be exchanged by business men without excessive profits if the government would withdraw all preference for or restraint[1] of the owners of the capital equipment upon which the community must depend for its subsistence. According to this theory, profits are essentially beneficent; they are the just reward of society to the entrepreneur for producing. The greater the reward the greater will be the output. No conflict of interests was seen; society and the entrepreneurs were considered one in their interests. That control might be developed to restrict output and gain larger profits in conflict with the interests of society was recognized as a possibility in a few isolated cases of monopoly. But it was not anticipated that the same conflict of interests would exist in competitive as well as in monopoly business, that is, that there would be that same interest in all business in restricting output for higher prices or wages, or in restricting competitors from producing for the object of larger returns in terms of money.

This faith in absolute power of the individual in the strictly private direction of economic goods would sound strange to the historian of those times, as absolutism in any form had been discredited through several hundred years of political experience. Every check had been placed upon the power, ambition, and initiative of the king in whom political power at one time had become centralized. But, as just indicated, it was not anticipated, at the time of the formulation of the competitive theory, that power and privilege under the new system of technology would spring from ownership of capital equipment.

[1] Adam Smith, *Wealth of Nations*, Book IV, chap. ix.

The competitive theory of prices, the old competitive system, the theory of laissez faire, the laissez-faire system of government, the labor theory of origin of private property, the theory of equality of opportunity, the right of individual initiative, and the exclusive private direction by a few of its owners of the capital equipment upon which the community depends for its subsistence, are so closely bound together that they form a complete system of thought and of institutions which must survive or fall together.[1] Any reform which would substitute another scheme must have some of the same completeness as the system which it seeks to supplant.

All attempts at reform of food distribution, as well as of railroad administration, and of the factory system are departures from laissez faire. However, the eighteenth-century philosophy of laissez faire has persisted to interfere with all effective reform. To illustrate, the competitive theory of prices and the laissez-faire theory of government and of private property have stood in the way of all effective railroad legislation. During the war it was found that the railroad system must be operated as a whole, that zoning and unification of transportation and centralized direction were necessary if cars were to be fully utilized and if the waste of cross freight and back hauls was to be avoided, and if the railroads were to be managed so as to co-ordinate effectively and economically with all other industries. Then, it became more fully recognized that the competitive system did not operate in railroad transportation.[2] But after the war this backsliding from the ancient belief was in a measure remedied, though in the guaranty of income there was again a departure from the laissez faire of the competitive system, according to which there would be a sufficient mobility of capital under private initiative without government interference.

But on the whole, there is no intention in any of these reforms to question the adequacy of private property. As far as that institution is concerned, the attitude of reformers as well as of business men holds in the main to the old assumptions of laissez

[1] Cf. Thorstein Veblen, *The Vested Interests and the State of the Industrial Arts*, chaps. i, ii, and viii.

[2] President Wilson's Message to Congress after the signing of the Armistice and articles of Theodore Price in *Commerce and Finance;* Willian R. Camp, "Limitations of the Ricardian Theory of Rent," *Political Science Quarterly*, September, 1918, p. 343.

faire. The same faith as to its efficacy exists as when private property was regarded as having its origin in labor.[1] Corollary to this belief, it was thought that the function of government in the main ended with the protection of property rights, as securing to the individual the fruits of his labor; and any failure of government in this function was regarded as a discouragement to industry. It is manifest that the new order of private property is quite as divergent from the old industrial concept as the present competitive order is from that of the traditional theorists. The reforms proposed do not contemplate limiting the size of the individual holdings of private property or changing essentially the laissez-faire right of the owner to use his possession as he chooses without direction on the part of producers or of consumers. In all the hearings held and in all the bills proposed, this belief in the right of private direction of property which is public in its effect prevails. The thought of the reformers does not seem to be to take the direction of the packing industry away from those whose interests are primarily in returns in terms of money and not in the development of the technological processes of production, through which processes alone output can be increased. Such a shift from the ideas of the eighteenth century would mean an advocacy of change of management from financiers to engineers; and it is needless to say that no such drastic measures are contemplated by the reformers any more than by the business men.

The fact that the accumulated profits of the packers[2] are not used for personal consumption but for developing a system of control of production and distribution; and the further fact that consumers and producers, including workmen in the packing plants, whose interests are thus affected are not content without some voice

[1] John Locke, *Treatise on Civil Government*, 1680, chap. 5, sec. 27: "Though the earth, and all inferior creatures, be common to all men, yet every man has a property in his own person; this nobody has a right to but himself. The labor of his body, and the work of his hands, we may say, are properly his. Whatsoever then he removes out of the state that nature hath provided, and left it in, he hath mixed his labor with and joined to it something that is his own, and thereby makes it his property."

[2] The present capital of the five big packers has been chiefly obtained from profits retained in their business, *Federal Trade Commission Report*, Part V, p. 9, "Profits of the Packers."

in the system of control,[1] have not essentially changed the property ideas of the reformers any more than those of the business men.

The business man has an absolute faith in his ability to direct production and distribution. He thinks that the proposed system of government control of the packing industry would throttle ambition.[2] He believes that all initiative and progress must come from the owners or at least from a part of them and not from the engineers in charge of the mechanical processes. He holds these beliefs of laissez faire and of private direction of the economic affairs of the community quite as firmly as did his predecessors of the eighteenth century.

The reformers do not propose public facilities for marketing meat for the purpose of restricting any property rights but for the purpose of restoring the old order of free competition. This is the universal remedy which the government has had for all economic troubles as conspicuously seen in its program for breaking up the trusts.[3] The main difference between the packers and the reformers in this matter of government control seems to be that the former insist that competition is already sufficient without any more government regulations, whereas the latter believe that the old order of competition can be made sufficient with the help of a little more government regulation.[4]

[1] *Hearings before Committee on Agriculture on Stimulation of Live-Stock Products*, Part I, p. 19. Quotation from an editorial in *Wallace's Farmer*.

[2] H. R. 13324, Part IV, pp. 1209–10; *Hearings before House Committee on Agriculture on Meat-Packer Legislation*, Part XIII, pp. 968–70, 1002; *ibid.*, Sixty-seventh Congress, First Session, May, 1921, pp. 409–11.

[3] If under the Webb-Pomerene Act competitors may combine in an export association to fix export prices and if they at the same time reach an agreement as to the relationship between export and domestic prices, then there is even a legal abandonment of the ancient doctrine of free competition as the panacea of all economic troubles. Cf. Elliott Jones, "The Webb-Pomerene Act," *Journal of Political Economy*, November, 1920.

[4] All the later bills, including *H. R. 6320* as amended by the Senate, have cut out the provision for government or railroad maintenance of refrigerator cars and an adequate supply of cold storage plants. Their license or registration and regulation features seem to be simply directed to prevent unfair competition and to be scarcely more than a re-enactment of the Sherman and Clayton Anti-Trust Acts. The only constructive measure provided is the requirement for a standard form of accounting. Cf. *Hearings on H. R's.* 14, 232, 5034, 5692, p. 401.

The bias of the Federal Trade Commission in favor of the old order of free competition has led it to consider the strategic methods of the packers which interfere with free competition and to overlook the industrial advantages of the system which the packers have built up. The strategic methods emphasized are more or less common to all large scale business and are not peculiar to the packers, as unfortunately is implied by the reports of the commission. Any program of reform would not be applicable to the meat-packing industry alone. But if the purpose of the proposed reforms were achieved it would mean, to some extent, the decentralization of the packer system of production and distribution and the loss of certain economies of large-scale operation.[1] The agreement of the United States Attorney General with the packers, by which the five big packers are to refrain from the use of their refrigerator cars and branch houses for the transportation, storage, jobbing, and retailing of certain competitive substitute and unrelated products,[2] illustrates how a reform may diminish the economies of distribution without substantially decreasing the extent of the packers' holdings and control.[3]

The meat industry has outgrown the eighteenth-century ideas of production and distribution. In the eighteenth century, production was primarily a matter of the individual producing for the home community, and of his disposing of the surplus not needed for local consumption. The theories developed at that time are not adapted to the present problems of distribution of the surplus

[1] Statement of J. Ogden Armour, representing Armour & Co., before the *Hearings of the Senate Committee on Agriculture and Forestry*, Sixty-fifth Congress, Third Session, Part I, pp. 526, 532–33.

[2] *Department of Justice, Report of Decree and Consents, Petition, Answers, and Stipulation in the United States of America* vs. *Swift & Company and Others*, 1920, p. 32. Testimony of Attorney-General Palmer before *Hearings of the House Committee on Agriculture*, Sixty-sixth Congress, Second Session, Part XXXI; cf. *Interstate Commerce Commission*, No. 10745, *National Wholesale Grocers' Association* vs. *Director-General, Alabama & Vicksburg Railway Co., et al.*, p. 380.

[3] The size of holdings of the defendant corporations and of the individual stockholders thereof must not equal 50 per cent of the stock in any corporation dealing in any of the forbidden products. But control of such corporations may be secured with less than 50 per cent ownership of stock through the co-operation of "friendly" stockholders.

but were suitable for production to meet local needs. Prices were considered primarily a matter of higgling between the local producer and the local consumer. Under the handicraft system of decentralized production and sale, the organization and the integration of industry as a whole for the nation or for the world at large was not necessary. Each local community was mainly self-sufficing. Division of labor had begun, but specialization in production for whole communities and for large geographical areas had not gone so far as to make them mainly interdependent. Instead of organization being regarded then as a necessity or as a virtue, it was considered an evil. Working together meant price fixing, limitation of output, or other activities at variance with the interest of society. Operators, whether workmen or capitalists, were or should be working as independent units. The industrial revolution, however, upset the sufficiency of the local community. Specialization under the machine technology brought about a dependence of one community and one industry upon all others so that no process and no community could function except in interdependence with all others. Coal and iron mining, steel production, transportation, meat packing, factories generally, and agriculture must work together and function as a whole in order to be most efficiently serviceable.

Under the present system of production most of the live stock in the United States is produced west of the Mississippi River whereas the majority of the consumers are east of the Mississippi. This means that most of the live stock or most of the dressed meat must be hauled long distances. However, it has been found that the invention of the refrigerator car and the development of a highly specialized division of labor[1] in connection with the mechanical processes of manufacture of packing-house products and by-products makes it more economical to carry on the meat-packing industry near the source of supply of live stock.[2] The personal meeting of the needs of consumers by local butchers therefore becomes impossible. The co-ordination or interlocking of all processes of live-stock production, and of the manufacture and

[1] John R. Common's *Labor Problems*, chap. ix.

[2] *Federal Trade Commission, Report on Private Car Lines*, pp. 33-37.

marketing of meat products, precludes the possibility of freedom of the individual to enter upon any and every process upon his own initiative. If the economies of large scale distribution are to be preserved and the glutting of markets with a highly perishable product is to be prevented, there follows a necessity to zone the territory to be covered. To be effective, zoning would involve a consideration of the most economical size for a packing plant, either for local use or for centralized distribution, the location of packing plants and branch houses in each zone so as to avoid duplication of equipment, and finally the centralized direction of the movement of live stock and meat products by technicians to prevent cross freight, back hauls, and to assure a uniform distribution as nearly in accordance with the needs of the population as the agricultural resources would permit. Such procedure, however, would run counter to the current philosophy founded on eighteenth-century conditions.

During the war the co-ordination of industry with human needs was greatly improved. The necessity to produce vast supplies of new war materials made it necessary to consider transportation, mining, manufacture, and agriculture as a whole to reduce unnecessary freight, styles and standards, to eliminate "non-essentials" and concentrate on the most needful products for effective action for one purpose. But since the war co-ordination of the industrial energies of the opposing forces has not been brought about, and worse still, the co-ordination of the industrial processes of the allies and of the enemy nations among themselves has ceased. The business system has not functioned to feed and clothe Europe as well as before the war. As a result of the failure to co-ordinate the resources of all countries with human needs, a large portion of the world is suffering from lack of food and clothing. The disposal of the surplus products of any district is being governed by the interests of the local owners and is not made dependent upon the needs of distant consumers. Contrary to the needs of distant consumers but according to the eighteenth-century ideas of private property, programs for curtailment of production of food and clothing products have been started to avoid money losses for the local owners. Manufacturers with greater power of effective

sabotage than farmers have already reduced output or shut down their plants entirely. Limitation of output, or sabotage, is the recognized remedy against declining prices under the price system. The rate of production is not gauged by human needs but hinges upon the turn of the market.[1] The price system puts a premium on the restriction of output. The owners of the present system receive their returns in terms of price. The more the owners in any given line can restrict the output, the higher price they can obtain. To prevent others from producing becomes a profitable and a necessary part of a program for controlling markets and for maintaining prices. The more control the owners have over distribution, the more they may restrict the output of the producers by paying them a low price, and the more they may maintain a high level of prices to the consumers. Reformers have falsely assumed that there must be an agreement or some sort of illegal understanding to bring about such a result. However, if the buyers are one in their interests in buying low, and if the distributors are one in their interests in selling high, and if this community of interests is effective without illegal agreements, then any provision to prevent such agreement is futile. No merely legal negation can have any valid force in disentangling this community of interests of the distributors of farm products. Any effective reform must abolish this conflict of interests between the producers, distributors, and consumers. The reforms proposed by the Federal Trade Commission leave all discretionary power as to distribution in the hands of the owners of surplus products and therefore essentially continue the present conflict of interests between the distributors and the final users of those products. To the extent that the business system subordinates human needs, comfort, and welfare to considerations of price—as is especially evident in the present period of price depression and of curtailed production—to that extent, it falls short of maximum social efficiency, and it will accordingly be called into question.

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[1] Wesley C. Mitchell, *Business Cycles*, 1913, pp. 556, 570.